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**AKITA**  
DRILLING LTD.





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## Annual Meeting

The Annual General Meeting of Shareholders will be held at 10:00 a.m. M.D.T. on Monday, May 9, 2011 at the Westin Hotel, 320 – 4th Avenue S.W., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.

## Forward-looking Statements

From time to time Akita Drilling Ltd. ("AKITA" or the "Company") makes written and verbal forward-looking statements. These forward-looking statements include but are not limited to comments with respect to our objectives and strategies, financial condition, the results of our operations and our business, our outlook for our industry and our risk management discussion. Forward looking statements are typically identified with words such as "believe", "expect", "forecast", "anticipate", "intend", "estimate", "plan" and "project" and similar expressions of future or conditional events such as "will", "may", "should", "could" or "would".

By their nature these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not be achieved. We caution readers of this Annual Report not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by the following factors: the level of exploration and development activity carried on by AKITA's customers, world oil and North American natural gas prices, weather, access to capital markets and government policies. We caution that the foregoing list of important factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

Additional information about these and other factors can be found under the "Business Risks and Risk Management" section of the Management's Discussion and Analysis of this 2010 Annual Report for AKITA.







# Corporate Profile

**A**KITA Drilling Ltd. is a premier oil and gas drilling contractor with drilling operations throughout Western Canada, Quebec, Canada's Northern Territories and Alaska. The Company strives to be the industry leader in customer relations, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling, the Company specializes in purpose-built drilling rigs and is active in directional, horizontal and underbalanced drilling providing specialized drilling services to a broad range of independent and multinational oil and gas companies. AKITA currently employs, at full operations, approximately 750 people. The Company has ownership in 37 drilling rigs in all depth ranges.



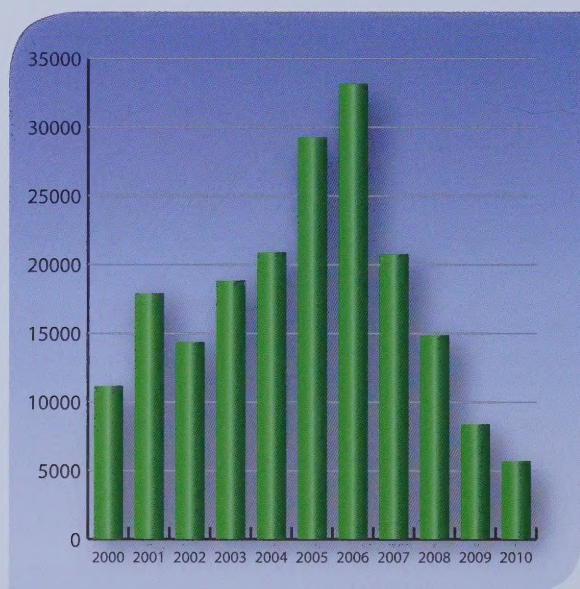
# Operational Performance

Weakness in the first half of 2010 was responsible for the cyclically low earnings results for the year. During the second half of the year, earnings were higher than previous year comparatives.

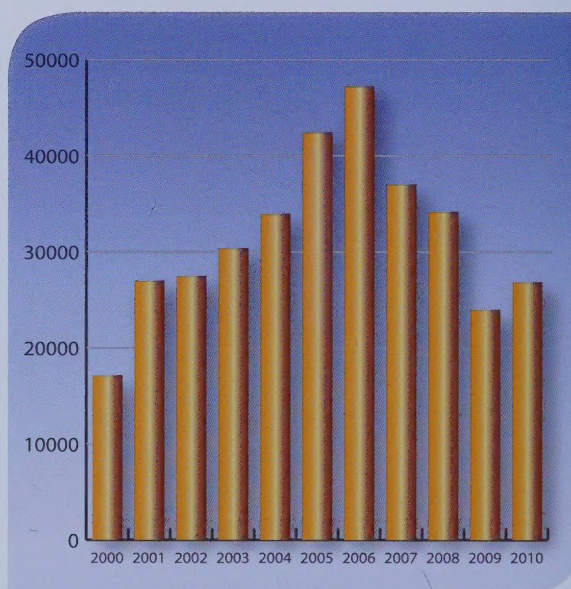
Funds flow from operations was not affected by the record high depreciation charges. Unlike net earnings, this measure of operational performance revealed improvement from 2009 results.

AKITA continues to maintain a strong liquidity position as demonstrated by having \$61,339,000 in working capital. This balance is a cornerstone to provide funding to allow the Company to execute on its strategy of building and operating "built for purpose" rigs.

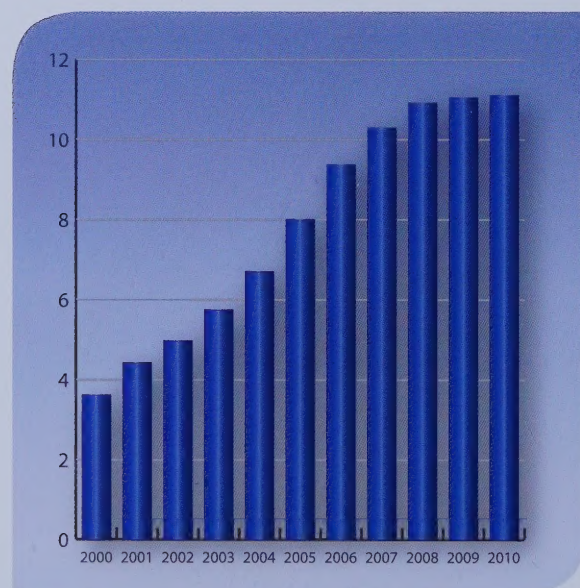
Equity per share grew 0.1% on a one year basis, and 10.6% compounded over the past ten years.



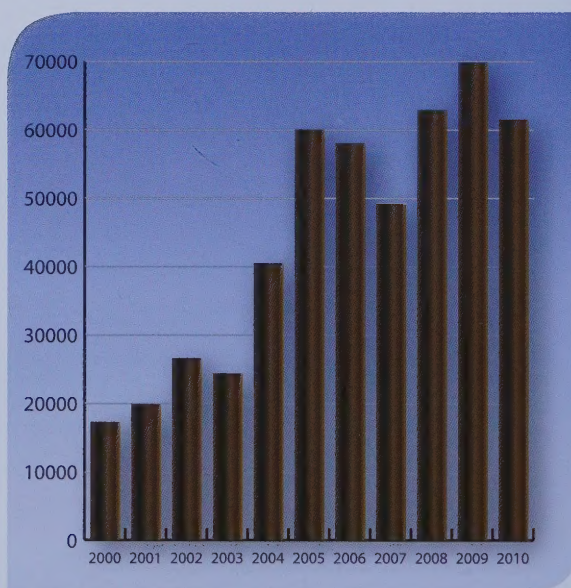
Net Earnings (000's)



Funds Flow from Continuing Operations (000's)



Year-end Equity per Share (\$)



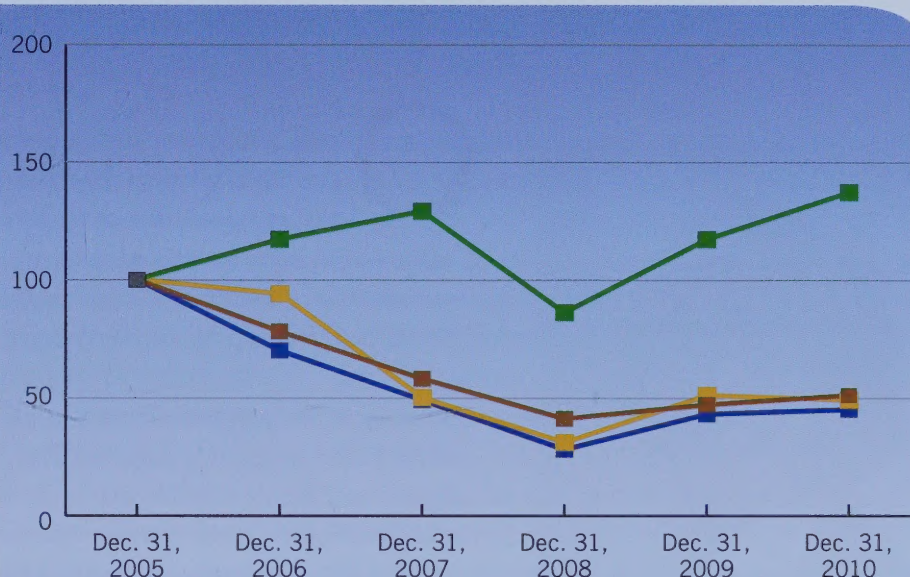
Year-end Working Capital (000's)



# Share Performance

The graph to the right compares the cumulative return over the last five years on the Class A Non-Voting shares and Class B Common shares of the Company from December 31, 2005 with the cumulative total return of the S&P/TSX Composite Stock Index and the TSX Oil & Gas Drilling Sub-Index over the same period, assuming reinvestment of dividends.

**Five Year Total Return on \$100 Investment**



AKITA Class A	100	70	49	28	43	45
AKITA Class B	100	94	50	31	51	49
S&P/TSX Composite Index	100	117	129	86	117	137
TSX Oil & Gas Drilling Sub-Index	100	78	58	41	47	51

## Share Performance

		2006	2007	2008	2009	2010
Weighted average number of Class A and Class B shares		18,491,237	18,275,846	18,255,099	18,230,913	18,148,246
Market prices for Class A Shares	High	\$ 26.35	\$ 18.90	\$ 17.50	\$ 12.44	\$ 10.71
	Low	\$ 16.20	\$ 9.51	\$ 5.70	\$ 5.25	\$ 7.15
	Close	\$ 16.65	\$ 11.39	\$ 6.35	\$ 9.50	\$ 9.50
Volume		4,522,599	4,377,762	2,553,765	2,170,740	1,021,031
Market prices for Class B Shares	High	\$ 28.52	\$ 21.50	\$ 18.20	\$ 12.25	\$ 11.50
	Low	\$ 21.50	\$ 11.01	\$ 6.65	\$ 6.25	\$ 8.04
	Close	\$ 21.50	\$ 11.25	\$ 6.65	\$ 10.76	\$ 10.00
Volume		13,362	13,135	7,051	14,049	13,268

## Dividend History

AKITA began paying dividends to shareholders in 1996. It is the current intention of the Board of Directors to continue to pay quarterly dividends in the future. Nevertheless, the payment of any dividend is at the discretion of the Board of Directors and depends upon the financial condition of the Company and other factors.

	2006	2007	2008	2009	2010
Dividends paid per share (\$)	0.24	0.28	0.28	0.28	0.28



# Letter to the Shareowners



Linda A. Heathcott  
Chairman of the Board



Karl A. Ruud  
Chief Executive Officer

Overall, drilling conditions improved throughout 2010. In general, drilling for oil was stronger, drilling for shale gas was steady and drilling for conventional gas was weak, except in the more liquid rich areas. Potash related drilling was also less active than in 2009, largely due to wet weather in Saskatchewan during the summer and fall.

Earnings for the year ended December 31, 2010 were \$5,701,000 or \$0.31 per share on revenue of \$111,131,000. Comparative figures for 2009 were \$8,380,000 or \$0.46 per share on revenue of \$106,263,000. Funds flow from operations for the current year was \$26,740,000 as compared to \$23,960,000 in 2009 while cash flow from operations for 2010 was \$37,441,000 as compared to \$29,235,000 in 2009.

The Company's rig utilization in 2010 was 37.8%. Many of AKITA's triple sized rigs have deeper capacities than desired by most operators in the drilling environment that existed in 2010, however, management expects these rigs to be more active once operators allocate larger budgets to drilling deeper gas wells. Although AKITA's 2010 utilization was marginally lower than industry, it represented an improvement over the Company's 2009 utilization of 31.1%.

A substantial portion of AKITA's capital spending during 2010 was directed to converting three conventional rigs into pad rigs, upgrading the capacity of an existing pad rig and the construction of a new pad rig (including at year-end). In total, the Company incurred costs of \$23,575,000 on these five projects. Pad rigs have been a key focus market since 2003 and are desirable assets for drilling heavy oil, shale gas and other prospects that involve drilling multiple wells where wellheads are in close proximity to one another. At the end of 2010, the Company had 11 rigs with pad capabilities.

The Company's confidence in the industry and commitment to maintaining a high quality fleet were key to AKITA's \$31,624,000 net capital spending during the year, compared to \$11,835,000 in net capital spending during 2009. The construction of new pad rigs, conversion of existing conventional rigs into pad rigs and upgrades to existing pad rigs formed the bulk of AKITA's 2010 capital spending. In addition to pad rigs, the Company invested in a major upgrade to one of its shallow capacity conventional rigs.

AKITA's continuing strong cash position provides the Company with the flexibility to evaluate a broad range of alternatives to enhance shareowner value including meeting the Company's long-term strategy of having significant investments in purpose built rigs. AKITA's Board of Directors and management are actively considering appropriate investment alternatives, including a number of strategic options that may require longer lead times to develop.

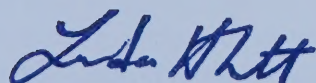
AKITA maintains a commitment to safety that permeates all levels of the organization, and again this commitment has translated into positive results. During 2010, the

Company achieved the lowest rate of reportable incidents since AKITA's inception.

On October 22, 2010, the Canadian Association of Oilwell Drilling Contractors provided its industry drilling forecast for 2011 estimating the drilling of 11,811 wells, compared to 12,145 wells drilled in 2010. The current year estimate was based upon commodity price assumptions of US \$80 per barrel for crude oil and CAD \$4.00 per mcf for natural gas. Despite the lower number of wells projected in the 2011 forecast, compared to the 2010 actual wells drilled, the industry is anticipating 10.8% more drilling days in 2011 as a result of anticipating more horizontal wells than drilled in 2010. Although winter drilling activity to date appears to support this forecast, management remains cautious regarding post-break up drilling activity given the continuing natural gas price weakness.

We wish to acknowledge with thanks the dedicated efforts of AKITA's employees, partners, customers and suppliers, all of whom make an important contribution to the Company's success. We also wish to express our appreciation to the Board of Directors for their thoughtful guidance and wise counsel and to the AKITA Shareowners for their support and confidence in the Company.

On behalf of the Board of Directors,



Linda A. Heathcott  
Chairman of the Board



Karl A. Ruud  
President and Chief Executive Officer

March 18, 2011



# Management's Discussion & Analysis

The following sets out management's analysis of the consolidated financial position, consolidated cash flows and consolidated results of operations for AKITA Drilling Ltd. and its subsidiaries (collectively referred to as "AKITA" or "the Company") for the years ended December 31, 2010 and 2009. The information included in this MD&A is intended to assist readers in analyzing the financial affairs of the Company. In addition to the information in this section, AKITA's audited consolidated financial statements for 2010 and 2009, including the notes thereto, found on pages 30-40, provide information on the Company's financial position, cash flows and results of its operations. The information in this MD&A was approved by AKITA's Board of Directors on March 18, 2011 and incorporates all relevant considerations to that date. All amounts are reported in Canadian dollars.

## Introduction

AKITA is a premier oil and gas drilling contractor with drilling operations throughout Western Canada, Canada's Northern Territories, Quebec and Alaska. The Company strives to be the industry leader in customer relations, employee expertise, safety, equipment quality and drilling performance. In addition to conventional drilling, the Company specializes in purpose-built drilling rigs and is active in directional, horizontal and underbalanced drilling, providing specialized drilling services to a broad range of independent and multinational oil and gas companies. Of the Company's 37 rigs, 34 were located in Western Canada at December 31, 2010, representing just over 4% of the Western Canadian industry drilling fleet.

AKITA's growth strategy has focused on constructing new rigs, and reconstructing existing rigs, in response to specific customer demands. This strategy enables AKITA to secure long term drilling contracts with customers who request specific rig configurations, and at the same time to continually upgrade its fleet. First employed nearly a decade ago to secure a dominant drilling position in Canada's Northern Territories, the Company continues to utilize this strategy to enhance its development of pad rigs designed for both heavy oil and natural gas located in shale formations and other specialty applications. In 2010, AKITA added moving systems to two of its light capacity double rigs in order to drill a specialized program, converted one of its arctic rigs into a pad rig suitable for drilling heavy oil or shale gas to 4,000 metres, upgraded one of its existing pad rigs and commenced construction on a new pad rig designed for heavy oil operations.

## General Overview

Overall demand for AKITA's drilling services grew in 2010, following four years of general decline. Due to the continuing low price of natural gas, however, most activity in 2010 related to either drilling for crude oil or for natural gas rich in liquid forms of hydrocarbons.

Historically, recovery in rig utilization occurs prior to a recovery in day rates, and the situation in 2010 followed that pattern. Consequently, the Company's financial performance was weakest in the first quarter of the year but improved as the year progressed.



## Revenue and Operating & Maintenance Expenses

\$Million	2010	2009	Change	% Change
Revenue	111.1	106.3	4.8	5%
Operating & Maintenance Expenses	69.2	67.6	1.6	2%

Revenue increased to \$111,131,000 in 2010 from \$106,263,000 in 2009 as improving market conditions resulted in more drilling days and, in some cases, higher day rates in the drilling sector. Although overall revenue increased, revenue per operating day decreased to \$20,645 during 2010 from \$23,869 per operating day in 2009, due to changes in rig mix and standby revenue. Operating and maintenance costs are tied to activity levels and amounted to \$69,162,000 or \$12,848 per operating day during 2010 compared to \$67,649,000 or \$15,195 per operating day for the prior year. This increase in total operating and maintenance costs was the result of increased drilling activity coupled with the change in rig mix including the change in the range of services provided. Although mitigated by a corresponding decrease in operating and maintenance costs per day, the decrease in revenue earned per day resulted in the overall profit margin (the difference between revenue per day and operating and maintenance expense per day) decreasing to \$7,797 per day, compared to \$8,673 per day in 2009.

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Work in progress on daywork contracts is measured based upon the passage of time in accordance with the terms of the contract. Daywork contracts represented 100% of all revenue generated in 2010 (2009 – 100%). No significant losses were anticipated at either of these year-end dates and accordingly no provision for material losses has been made.

As a result of retiring two older rigs during the fourth quarter, at December 31, 2010, AKITA had 35 drilling rigs under management in Canada (32.225 rigs net). In addition, the Company had a 50% interest in two drilling rigs in Alaska. Consequently, at December 31, 2010, AKITA's drilling rig fleet stood at 37 rigs (33.225 rigs net), two fewer than at the end of 2009 (2.0 fewer rigs net). AKITA provided drilling services to 42 different customers in 2010 (30 different customers - 2009), including four customers that each provided more than 10% of AKITA's revenue for the year (2009 – three customers).

## Depreciation Expense

\$Million	2010	2009	Change	% Change
Depreciation Expense	20.9	17.5	3.4	19%

AKITA depreciates its drilling rigs using the unit of production method. Although generally depreciated based on an estimated service life of 2,000 operating days per drilling rig, the Company records depreciation on five of its deep drilling rigs over an estimated service life of 3,600 operating days per drilling rig. The increase in depreciation expense to \$20,873,000 during 2010, from \$17,476,000 during 2009 was primarily attributable to higher levels of rig activity together with a higher average cost base of AKITA's rigs due to rig upgrades. Management assesses the estimated remaining life of its rigs annually. Assets other than drilling rigs are depreciated over their estimated remaining lives using a straight line or declining balance basis of calculation. Drilling rig depreciation accounted for 80% of total depreciation expense in 2010 (2009 – 77%).



## Selling and Administrative Expenses

\$Million	2010	2009	Change	% Change
Selling and Administrative expenses (total)	13.5	9.9	3.6	36%
Selling and Administrative expenses (excluding non-recurring items)	13.5	12.8	0.7	5%

Unlike 2009, when the Company recorded non-recurring reductions of \$2,819,000 against its pension liability as a result of updated actuarial reports, AKITA recorded no non-recurring reductions in 2010.

Selling and administrative expenses increased to \$13,464,000 in 2010 from \$9,942,000 in 2009. Selling and administrative expenses equated to 12.0% of total revenue in 2010, compared to 9.4% of total revenue in 2009. After adjusting for the non-recurring items described in the preceding paragraph for 2009, selling and administrative expenses were 12.0% of total revenue in 2010 compared to 12.0% of total revenue in 2009.

The single largest component of selling and administrative expenses was salaries and benefits which accounted for 62% of these expenses (46% in 2009). After giving consideration to the non-recurring adjustments, 2009 comparative salaries and benefits accounted for 58% of selling and administrative expenses in that year.

## Other Income (Expense)

\$Million	2010	2009	Change	% Change
Interest Income	0.8	0.5	0.3	60%
Gain on Sale of Joint Venture Interests in Rigs and Other Assets	0.1	0.4	(0.3)	(75%)
Gain (Loss) on Foreign Currency Translation	0.0	(0.2)	0.2	N/A
Other Income	0.9	0.7	0.2	29%

The Company invests any cash balances in excess of its ongoing operating requirements in bank guaranteed highly liquid investments. Interest income increased to \$773,000 in 2010, as a result of increases in short-term interest rates compared to interest income of \$524,000 in 2009.

The gain on sale of joint venture interests in rigs and other assets totalled \$75,000 in 2010 compared to \$396,000 in the previous year. The Company does not anticipate this to be a significant continuing source of regular earnings in the future.

As a result of the appreciation of the Canadian dollar vis-à-vis the United States dollar during 2010, the Company recorded a gain from foreign currency translation of \$30,000 from its U.S. purchases compared to a loss of \$215,000 in 2009.



## Income Tax Expense

\$Million	2010	2009	Change	% Change
Current Tax	2.9	2.1	0.8	38%
Future Tax	(0.1)	1.4	(1.5)	N/A
Total Income Tax Expense	2.8	3.5	(0.7)	(20%)

The Company records income taxes using the liability method, thereby recording future income taxes based upon the differences between the financial reporting and income tax bases of assets and liabilities measured using tax rates that are substantively enacted to be in effect when the differences are expected to reverse. Total income tax expense decreased to \$2,809,000 in 2010 from \$3,521,000 in 2009. Overall income tax expense decreased primarily due to lower pre-tax earnings. In addition, current tax rates decreased slightly. At the same time, future tax rates increased as a result of changes to the anticipated jurisdictions of the ultimate taxation authorities. In addition to the income taxes recorded in the consolidated statements of earnings, the Company recorded a recovery of future income taxes of \$201,000 through other comprehensive income in respect of the foreign exchange adjustment.

## Net Earnings and Cash Flow

\$Million	2010	2009	Change	% Change
Net Earnings	5.7	8.4	(2.7)	(32%)
Funds Flow From Operations	26.7	24.0	2.7	11%
Change in Non-Cash Working Capital	10.7	5.3	5.4	102%
Cash Flow from Operations	37.4	29.2	8.2	28%

Net earnings decreased to \$5,701,000 or \$0.31 per Class A Non-Voting Share and Class B Common Share (basic and diluted) for 2010 from \$8,380,000 or \$0.46 per share (basic and diluted) in 2009. Funds flow (not a GAAP measurement – see next section “Non-GAAP Measure”) from operations increased to \$26,740,000 in 2010 from \$23,960,000 in 2009. Unlike net earnings, funds flow from operations is not affected by the recording of depreciation expense which was significantly higher in 2010 compared to 2009. Cash flow from operations, which includes the cash impact of the operations of the Company but is also affected by the change in working capital, increased in 2010 to \$37,441,000 compared to \$29,235,000 in 2009.

Current year earnings were negatively affected by low profit margins, particularly at the beginning of 2010, as well as by higher depreciation throughout the year. These high depreciation charges did not affect either funds flow from operations or cash flow from operations.

Comparative net earnings for 2009 were subject to non-recurring reductions to general and administrative expenses as a result of pension liability adjustments. These adjustments had no effect on comparative funds flow or on cash flow from operations for that year.

## Non-GAAP Measure

Funds flow from operations is not a recognized measure under generally accepted accounting principles (GAAP). AKITA's method of determining funds flow from operations may differ from methods used by other companies and involves including operating cash flow before working capital changes. Management



and certain investors may find funds flow from operations to be a useful measurement to evaluate the Company's operating results at year-end and within each year since the seasonal nature of the business affects the comparability of non-cash working capital changes both between and within periods.

## Earnings per Share

Basic earnings per share have been calculated on the basis of the weighted average number of Class A Non-Voting Shares and Class B Common Shares outstanding during the year. Diluted earnings per share have been calculated using the treasury stock method. Under the treasury stock method, the dilutive effect of outstanding stock options is included in the weighted average number of shares. Proceeds that would have been received on exercise of stock options are used to buy back shares at the weighted average market price experienced during the year. The weighted average number of shares is then reduced by the number of shares acquired.

## Fleet and Utilization

Utilization rates are a key statistic for the drilling industry since they measure sales volume and influence pricing. During 2010, AKITA's utilization rate was 37.8%, which was 6.7 percentage points higher than the previous year and 2.9 percentage points lower than the 2010 industry average. AKITA has a higher percentage of very deep capacity rigs (i.e. in excess of 5,000 metre capacity) compared to the Canadian industry average. Work opportunities for this size of rig are typically tied to the commodity price of natural gas, consequently these very deep capacity rigs had very low utilization rates in 2010.

A significant shift in drilling has occurred in recent years with respect to the type of equipment preferred by AKITA's customers. Primarily, this shift was away from conventional rigs requiring trucks to relocate from well to well, towards the use of pad rigs with self-moving systems which allow the rig to move itself within a set of well locations. Moreover, pad rigs typically drill wells in "batches" whereby a series of well segments are drilled, followed by a second series and then a final series of segments. This style of drilling, as opposed to drilling each well from start to finish prior to moving, provides significant efficiency gains when used in the appropriate applications. The following table demonstrates the range of drilling capabilities for the Company's fleet:

### Drilling Depth Capability at December 31, 2010

		Conventional Rigs		Pad Rigs	
		Number of Rigs	Percent Utilization	Number of Rigs	Percent Utilization
0 to 950 metres:	(Note 1)	3	16.1%	0	N/A
951 to 1850 metres:	(Note 1)	7	32.2%	0	N/A
1851 to 2450 metres:	(Note 2)	0	N/A	3	43.4%
2451 to 3050 metres:		4	35.4%	4	70.2%
3051 to 6700 metres:	(Note 3)	12	25.5%	4	87.4%
Total		26	29.4%	11	67.4%

Note 1: The Company retired one rig from each of these categories during the year.

Note 2: The Company transferred two rigs from conventional to pad rigs during the year.

Note 3: The Company transferred one rig from conventional to pad rig during the year.

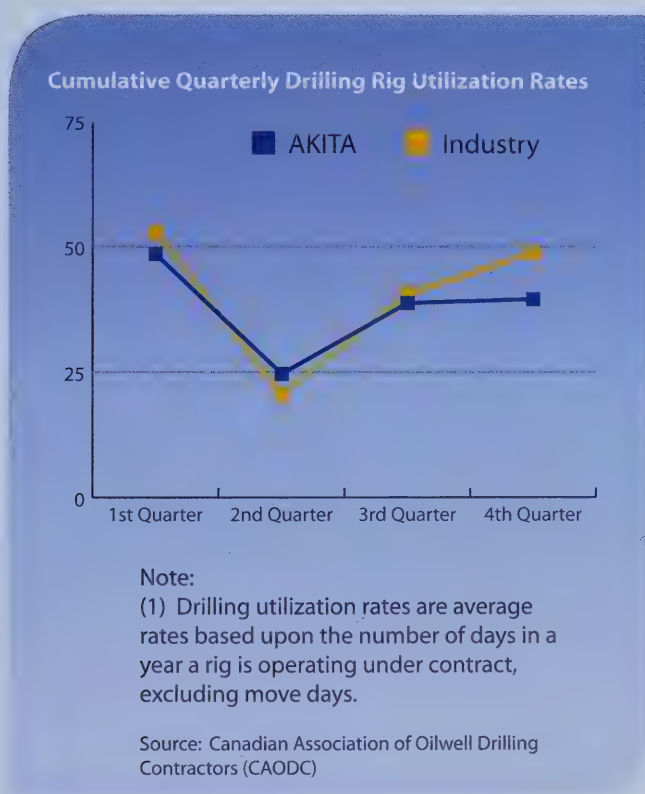


AKITA undertook the retrofit of one of its conventional rigs in 2010 and upgraded an existing pad rig. These rigs have both commenced long-term contracts.

In addition to pad rigs, the number of rigs located in the North influences AKITA's utilization. This geographic sector is quite diverse but generally results in shorter drilling seasons than exist for southern locations. In some cases, AKITA receives standby revenue to help offset the higher amount of down-time involved in operating in Northern Canada and Alaska. During 2010, the Company had between two and four rigs in either Canada's northern territories or in Alaska. The actual number of rigs located in these markets varied with the time of year.

From time to time, the Company enters into drilling contracts for extended terms. At December 31, 2010, AKITA had six rigs with multi-year contracts that extend into 2011 or beyond. Of these contracts, one is anticipated to expire in 2011, one in 2012, three in 2013 and the remaining contract in 2014.

The following graph illustrates AKITA's 2010 drilling utilization rates compared to the industry average:



The drilling industry is seasonal, with activity building in the fall and peaking during the winter months as northern transportation routes become available, at which time areas with muskeg conditions freeze sufficiently to allow the movement of rigs and other heavy equipment. The peak drilling season ends with "spring break-up", at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land.

In addition to traditional seasonal impacts, the business of AKITA is affected at various times in two important ways as a result of warmer than normal temperatures. First, increases in overall temperatures would have the effect of shortening the winter drilling season, especially in remote and northern locations. The most dramatic impacts of warmer than normal temperatures on the Company have been noted in Northern Canada, where the typical short drilling season has been reduced further by warmer than normal

temperatures. Another impact of warmer than normal temperatures on AKITA is related to a reduced demand for natural gas for heating. To the extent that warmer weather impacts the commodity price for natural gas, AKITA's customers might reduce natural gas drilling activity, which in turn, might reduce the demand for AKITA's services.

Competition in the Canadian drilling industry is affected by the overall size of the drilling fleet, and the level of customer demand. At December 31, 2010 there were 794 drilling rigs registered with the CAODC (December 31, 2009 – 834). AKITA's Canadian drilling fleet of 35 rigs (out of the total Company's fleet of 37 rigs) represented 4.4% of the total Canadian drilling fleet at December 31, 2010 (December 31, 2009 – 4.4%).



Changes in the level of operations have a corresponding impact on financial results. The following table shows the quarterly impact on AKITA's operations for the past three years:

<b>Three Months Ended</b>					
(Dollars in thousands, except per share) (Unaudited)	Mar. 31	June 30	Sept. 30	Dec. 31	Annual Totals
<b>2010</b>					
Revenue	<b>33,235</b>	<b>19,357</b>	<b>25,860</b>	<b>32,679</b>	<b>111,131</b>
Net earnings (loss)	<b>1,015</b>	<b>(567)</b>	<b>1,814</b>	<b>3,439</b>	<b>5,701</b>
Basic earnings (loss) per share (\$)	<b>0.06</b>	<b>(0.03)</b>	<b>0.10</b>	<b>0.18</b>	<b>0.31</b>
Diluted earnings (loss) per share (\$)	<b>0.06</b>	<b>(0.03)</b>	<b>0.10</b>	<b>0.18</b>	<b>0.31</b>
Funds flow from operations	<b>7,066</b>	<b>3,758</b>	<b>7,258</b>	<b>8,658</b>	<b>26,740</b>
Cash flow from (used in) operations	<b>(2,650)</b>	<b>16,696</b>	<b>11,128</b>	<b>12,267</b>	<b>37,441</b>
<b>2009</b>					
Revenue	41,696	17,881	20,871	25,815	106,263
Net earnings	3,908	555	752	3,165	8,380
Basic earnings per share (\$)	0.21	0.03	0.04	0.18	0.46
Diluted earnings per share (\$)	0.21	0.03	0.04	0.18	0.46
Funds flow from operations	12,051	2,750	3,169	5,990	23,960
Cash flow from operations	11,258	12,519	4,924	534	29,235
<b>2008</b>					
Revenue	48,126	20,278	33,747	35,095	137,246
Earnings (loss) from continuing operations	7,530	(246)	3,681	2,021	12,986
Earnings (loss) per share from continuing operations (basic and diluted) (\$)	0.41	(0.01)	0.20	0.11	0.71
Net earnings	7,647	1,498	3,681	2,021	14,847
Basic earnings per share (\$)	0.42	0.08	0.20	0.11	0.81
Diluted earnings per share (\$)	0.42	0.08	0.20	0.11	0.81
Funds flow from continuing operations	14,274	3,335	7,723	8,817	34,149
Cash flow from (used in) operations	(1,325)	19,815	(6,342)	7,219	19,367

During the fourth quarter of 2010, rig activity for the Company included 1,422 operating days compared to 1,182 operating days during the corresponding period in 2009. This increase in overall activity levels had a positive correlation on overall results as revenue rates equated to \$22,981 per operating day in the fourth quarter of 2010 compared to \$21,840 in the fourth quarter of 2009. Operating costs, which are also tied to activity levels, decreased to \$13,935 per day compared to \$14,127 in the corresponding quarter of 2009. Consequently, the Company's operating margin in the fourth quarter of 2010 (being the difference between revenue and operating and maintenance costs) increased both on a "per day" basis and in total when compared to 2009 fourth quarter results. A comparison of overall fourth quarter earnings in 2010 and 2009 was also influenced by the recording in 2009 of a one-time reduction of \$1,208,000 as a result of the receipt of an updated actuarial report in 2009. Even so, the Company's



fourth quarter results as measured by net earnings, funds flow from operations and cash flow from operations were all higher in the fourth quarter of 2010 compared to the corresponding period in 2009.

Overall liquidity decreased at December 31, 2010 compared to the corresponding 2009 year-end date by \$8,480,000 as measured in terms of overall working capital. Year over year working capital decreased primarily as a result of the higher overall level of capital expenditures during 2010 compared to the previous year. AKITA's cash balance increased \$3,822,000 on a year-over-year basis and was \$37,964,000 at December 31, 2010 (December 31, 2009 - \$34,142,000). The Company also held \$10,000,000 in term deposits at December 31, 2010 (December 31, 2009 - \$18,000,000).

The following table highlights AKITA's annual financial results for the last three years:

<b>Three Year Summary</b>			
(Dollars in thousands, except per share) (Unaudited)			
	<b>2010</b>	2009	2008
Revenue	<b>111,131</b>	106,263	137,246
Net earnings	<b>5,701</b>	8,380	14,847
Basic earnings per share	<b>0.31</b>	0.46	0.81
Diluted earnings per share	<b>0.31</b>	0.46	0.81
Dividends per Class A Non-Voting and Class B Common share	<b>0.28</b>	0.28	0.28
Funds flow from continuing operations	<b>26,740</b>	23,960	34,149
Cash flow from operations	<b>37,441</b>	29,235	19,367
Working capital	<b>61,339</b>	69,819	63,089
Other long-term liabilities	<b>21,369</b>	21,172	22,672
Shareholders' equity	<b>201,095</b>	201,446	198,461
Total assets	<b>242,650</b>	234,215	242,869

## Liquidity and Capital Resources

AKITA has typically generated sufficient cash flow from operations to fund its normal operating activities as well as capital expenditures. In years in which no new rigs are built under contract, and occasionally in years when new rigs are added to the fleet, the Company typically restricts routine capital expenditures to less than 50% of funds flow from operations. In 2010, AKITA's net capital expenditure program of \$31,837,000 represented 119% of funds flow from operations and included spending directed to the conversion and upgrade of two rigs into pad rigs suitable for oil sands drilling, costs directed to the construction of a new pad rig suitable for oil sands drilling, upgrading two of the Company's conventional rigs by adding moving systems as well as other routine capital expenditures. In 2009, AKITA's net capital expenditure program of \$12,341,000 represented 51% of funds flow from operations and included upgrade costs for two existing pad rigs, in addition to other routine capital expenditures.

At December 31, 2010, AKITA had \$61,339,000 in working capital, including \$37,964,000 in cash, compared to \$69,819,000 in working capital, including \$34,142,000 in cash, for the previous year. In 2010, AKITA generated \$26,740,000 in funds from operations. Cash was also generated from exercise of stock options (\$280,000) and the proceeds on sales of joint venture rigs and other assets (\$213,000), from working capital (\$12,302,000), a reduction in restricted cash (\$2,500,000) and from foreign currency translation (\$51,000). During the same period, cash was used for capital expenditures (\$31,837,000), payment of dividends (\$5,079,000) and the repurchase of share capital (\$1,348,000).



During 2009, the Company had an unused \$10,000,000 operating loan facility at bank prime secured by a general assignment covering substantially all of the Company's assets. In 2010, the Company elected to not renew its operating loan facility as management determined the cost to renew could not be justified when taking into account the Company's strong financial condition. As a result of this decision, the Company established more flexible deposit arrangements with its bankers. No loan was outstanding at either December 31, 2010 or December 31, 2009.

The Company had outstanding Normal Course Issuer Bids throughout most of 2010 and 2009. During 2010, the Company repurchased 158,104 Class A Non-Voting Shares at an average price of \$8.53 pursuant to its Normal Course Issuer Bid. The Company did not repurchase any shares during 2009.

In 2009, AKITA renewed its lease for its head office. In 2010, the cost for this lease was \$364,000. The lease expires on December 31, 2014.

The following table provides a summary of contractual obligations for the Company:

<b>Contractual Obligations</b> (Dollars in Thousands)	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Operating leases	<b>1,951</b>	488	975	488	Nil
Purchase obligations	<b>1,373</b>	334	696	343	Nil
Capital expenditure commitments	<b>10,749</b>	10,749	Nil	Nil	Nil
Pension obligations	<b>1,229</b>	Note	Note	Note	Note
Total contractual obligations	<b>15,302</b>	11,571	1,671	831	Nil

Note: Timing of pension payments is dependent upon retirement dates for respective employees. The cost from year one to three ranges from \$45,000 to \$168,000, from year four to five ranges from \$30,000 to \$112,000 with the balance being due after five years in any event.

## Financial Instruments

The Company's financial assets and liabilities include cash, cash equivalents, term deposits, accounts receivable, restricted cash, accounts payable and accrued liabilities. During the year, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated.

Management considers the credit risk associated with accounts receivable to be generally low as substantially all counterparties are well established and financed oil and gas companies. AKITA has detailed credit-granting procedures and in certain situations may require customers to make advance payment prior to provision of services or take other measures to mitigate credit risk. Provisions have been estimated by management and included in the accounts to recognize doubtful debts.

## Off-Balance Sheet Transactions

AKITA has not entered into any arrangements that involve off-balance sheet transactions.



## Related Party Transactions

AKITA is affiliated with the ATCO Group of companies and to Spruce Meadows, an equestrian show jumping facility, through its majority shareholder. All related party transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Operating purchases totalled \$481,000 and included sponsorship and advertising (\$325,000), shared employee services (\$112,000) and other miscellaneous purchases (\$44,000). In 2004 and in 2006, the Company entered into multi-year sponsorship and advertising contracts with Spruce Meadows. At December 31, 2010, the remaining commitment was \$1,373,000. Costs incurred related to these contracts during 2010 were \$325,000 (2009 - \$325,000). Costs and related services are consistent with parties dealing at arms length. The Company did not make any related party capital purchases during 2010.

## Class A and Class B Share Dividends

Per Share (\$)	2010	2009	Change	% Change
Dividends per share	<b>0.28</b>	0.28	0.00	0%

During 2010, AKITA paid dividends totalling \$5,079,000 (\$0.28 per share) on its Class A Non-Voting Shares and Class B Common Shares, compared to \$5,105,000 (\$0.28 per share) for 2009. The payment of any dividends is at the discretion of the Board of Directors and depends upon the financial condition of AKITA and other factors. Since the inception of the quarterly dividend program, dividends have been paid in each quarter of every year. The most recent dividend was declared on March 18, 2011 with a dividend rate of \$0.07 per share.

## Class A Non-Voting and Class B Common Shares

### Authorized

An unlimited number of Class A Non-Voting Shares  
An unlimited number of Class B Common Shares

Issued (Dollars in thousands)	Class A Non-Voting		Class B Common		Total	
	Number of Shares	Consideration (\$'000's)	Number of Shares	Consideration (\$'000's)	Number of Shares	Consideration (\$'000's)
December 31, 2008	16,568,333	21,946	1,654,284	1,366	18,222,617	23,312
Shares issued on exercise of stock options	14,000	64	—	—	14,000	64
December 31, 2009	16,582,333	22,010	1,654,284	1,366	18,236,617	23,376
Shares issued on exercise of stock options	52,000	280	—	—	52,000	280
Shares repurchased	(158,104)	(209)	—	—	(158,104)	(209)
Conversions Class B to Class A	400	—	(400)	—	—	—
<b>December 31, 2010</b>	<b>16,476,629</b>	<b>22,081</b>	<b>1,653,884</b>	<b>1,366</b>	<b>18,130,513</b>	<b>23,447</b>
Exerciseable options at Dec. 31, 2010	<b>108,000</b>					
Unexerciseable options at Dec. 31, 2010	<b>131,500</b>					



At March 18, 2011, the Company had 16,476,629 Class A Non-Voting Shares and 1,653,884 Class B Common shares outstanding. At that date, there were also 239,500 stock options outstanding, of which 113,500 were exercisable.

## Capital Assets

Capital expenditures totalled \$31,837,000 in 2010. Over half of this amount related to pad rig upgrades to existing pad rigs or conversions of conventional rigs into pad rigs (\$17,824,000). The Company also had one new pad rig under construction at year-end and spent \$5,751,000 on that project during 2010. Additional capital expenditures relate to rig equipment for existing rigs (\$5,599,000), drill pipe and drill collars (\$2,241,000) and other equipment (\$422,000). Capital expenditures for 2009 totalled \$12,341,000.

During 2010, AKITA did not have any significant disposals of capital assets.

Management reviews its assets on an annual basis and makes a determination based upon its own knowledge of the assets to ensure each net recoverable amount (based on future net funds flows) will be achieved over remaining service lives. No adjustments were made in 2010 or 2009 to carrying values as a result of this review.

## Joint Ventures

From time to time, the Company conducts certain operations via joint ventures. Ownership in and results of operations from these joint ventures are recorded under the proportionate consolidation method whereby only AKITA's share of the assets, liabilities, revenue and expenses are recognized. There are no significant terms or conditions in any of the Company's joint ventures that could have an adverse material financial statement impact.

Since 2000, AKITA has constructed seven drilling rigs under joint ventures. As part of the agreements to construct each rig, term contracts lasting four or more years each were entered into with customers. Three of the initial term contracts expired in 2005, one expired in 2006, one expired in 2009 and one expired in 2010. The remaining initial term contract expires in 2011.

The following table summarizes AKITA's share of assets, liabilities, revenues and expenses related to the Company's Joint Venture operations:

(Dollars in thousands)	2010	2009
Current assets	4,727	5,997
Capital assets, net of depreciation	47,608	56,474
Current liabilities	926	2,503
Revenue	21,011	30,228
Expenses	18,165	23,979
Net earnings	2,846	6,249
Cash flow from operating activities	8,380	10,210
Cash flow from financing activities	—	—
Cash flow from investing activities	(869)	(1,376)



## Accounting Estimates

The preparation of AKITA's financial statements includes significant estimates relating to the useful lives of drilling rigs. Based upon a detailed assessment of the age and quality as well as the type of wells being drilled by each rig, management determines the likely useful remaining life for each rig. Current life estimates for new drilling rigs range from 2,000 operating days to 3,600 operating days. Current life estimates for newly rebuilt drilling rigs are 2,000 operating days. Depreciation rates have been consistent for the Company since its inception in 1993 and have not resulted in any changes in estimates for any previous period and to date.

AKITA's depreciation estimates do not have any effect on the changes to financial condition for the Company, as depreciation is a non-cash item. However, total assets and results of operations, including net income, could be either understated or overstated as a result of depreciation estimates that are either too high or too low.

An additional significant estimate used in the preparation of AKITA's financial statements relates to the defined benefit pension liability for selected employees that was recorded as \$1,229,000 at December 31, 2010 (2009 - \$1,131,000). AKITA's pension liability estimates do not have any effect on the changes to financial condition for the Company, as the defined benefit pension is an unfunded non-cash item. However, total liabilities and results of operations including net income could be either understated or overstated as a result of pension estimates that are either too high or too low. AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2010, a key assumption relates to the use of a 5.25% discount rate. Except for the impact on the discount rate used in the pension assumptions, recent changes in the global economy and related markets have not otherwise affected the recording of the Company's defined benefit pension liability. This pension is an unfunded liability of the Company.

## Commitments

During 2007, AKITA guaranteed bank loans made to joint venture partners totalling \$4,500,000 until 2011. AKITA provided an assignment of monies on deposit totalling \$5,000,000 with respect to these guarantees. This assignment was reduced to \$2,500,000 in 2010 and was fulfilled in January, 2011. AKITA's security from its partners for these guarantees includes interests in specific rig assets. The \$2,500,000 in deposits have been classified as restricted cash on the December 31, 2010 balance sheet and are in addition to the \$37,964,000 in general cash held at December 31, 2010 as well as \$10,000,000 in term deposits.

## Business Risks and Risk Management

The drilling industry is cyclical and the business of AKITA is directly affected by fluctuations in the level of exploration and development activity carried on by its customers. Drilling activity is seasonal and, in turn, is directly affected by a variety of factors, including weather, world crude oil prices, North American natural gas prices, access to capital markets and government policies. Any prolonged or significant decrease in energy prices or economic activity, or adverse change in government regulation could have a significant negative impact on exploration and development drilling activity in Canada.

In addition to the management of strategic risks included above, the success of AKITA also depends on other factors, including competition due to increased capacity in the Canadian fleet as well as technological advances in drilling methods and rig designs and the management of operational, reporting and compliance risks.



AKITA manages its risks in these areas by:

- developing an annual strategic business plan and budget to help determine the levels of capital and operating expenditures;
- emphasizing the continuous development of long-term relationships with a core base of customers who maintain ongoing drilling programs during all phases of the economic cycle;
- maintaining a low cost structure for the Company, including limited use of financial leverage;
- obtaining multi-year rig contracts whenever possible, but especially when tailoring rig construction or reconfiguration to customer demand;
- maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program;
- constantly upgrading its rig fleet;
- employing well trained, experienced and responsible employees;
- ensuring that all employees comply with clearly defined safety standards;
- improving the skills of its employees through training programs;
- maintaining effective systems of internal control to safeguard assets and ensure timely and accurate reporting of financial results;
- maintaining comprehensive insurance policies with respect to its operations; and
- reducing environmental risk through the implementation of industry-leading standards, policies and procedures.

AKITA is subject to federal, provincial, territorial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters and the handling, use, emission and disposal of materials and wastes from operating drilling rigs.

AKITA is committed to preserving and protecting the environment and minimizing the discharge of hazardous materials into the environment in accordance with environmental protection laws and regulations. AKITA verifies compliance with these laws and regulations as well as with its own closely monitored internal procedures through a program of regular environmental audits. Despite its efforts, the Company recognizes that some risk of unintentional breaches of environmental protection laws and potential liability is inherent in particular operations of the industry.

AKITA does not believe that environmental protection laws and regulations affect its operations differently from other responsible companies in the contract drilling industry. Ongoing capital and operating costs of compliance with existing laws and regulations have not been quantified but are not expected to have a material impact on the earnings or competitive position of AKITA.

AKITA maintains comprehensive insurance policies with respect to its operations in amounts that it believes are adequate and in accordance with industry standards. AKITA's liability with respect to its well-site activities is limited by provisions of its agreements with oil and gas well operators that either limit AKITA's liability or provide for indemnification of AKITA against certain risks.

Drilling in Northern Canada and Alaska has often been an important aspect of AKITA's operations, despite special challenges to operate effectively in these areas. The North represents a small part of the total North American market, is very seasonal and in most cases depends upon frozen conditions



and ice. Local businesses, communities and land corporations play a major role in the infrastructure of the North through aboriginal land claim settlements and access agreements. AKITA manages its risks in this region by adding new rigs only on a multi-year contract basis and by working co-operatively in joint ventures with aboriginal partners with both partners sharing rig ownership.

## Changeover to IFRS

In February 2008, the CICA's Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for Canadian publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS beginning in the first quarter of 2011, including comparative results for the corresponding 2010 periods.

The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. The project philosophy is to generally align with current accounting practices and policies, and where possible, to minimize the impact of any changes to the business and records comparability.

Although AKITA has not fully quantified all of the effects of the adoption of the IFRS changeover and any adjustment resulting from changeover will be subject to the audit process, it is evident to management that the largest potential impacts on the Company's accounting records will be related to:

- Recording certain expenditures that are currently classified as maintenance in the income statement as capital assets on the balance sheet. This will have an impact of increasing net earnings and cash flow from operations, however the increase in cash flow from operations will be offset on a dollar-for-dollar basis by capital expenditures (thereby reflecting no overall impact on total cash flow);
- Depreciation changes related to the allocation of rig assets using a "components" approach. The overall impact of this change may be to either increase or decrease depreciation expense compared to balances recorded under GAAP since the actual results including the impact on net earnings will depend on actual rig utilization in any given period;
- Decisions made in respect to the Company's IFRS 1 choices, the portion of the standards related to the first-time adoption of IFRS. In that regard, the Company has elected to measure selected capital assets at fair value at the date of transition to IFRS and use that fair value as deemed cost. The application of this exemption is expected to reduce the opening balances for capital assets by \$30,000,000 to \$35,000,000 on transition to IFRS and will result in corresponding changes to future income taxes and retained earnings balances;
- Depreciation that might otherwise be charged by the Company as a result of the foregoing IFRS 1 selection. This change is expected to result in a reduction of depreciation expense in the year 2010 by \$1,600,000 to \$2,300,000;
- Changes to the future tax balances for the Company due to differences in carrying values for its capital assets. The Company has not quantified the related balances at this time;
- Changes to pension liability balances. Pursuant to IFRS 1, the Company has also elected to recognize all previously unrecorded actuarial gains and losses from the inception of its defined benefit pension plan until the date of transition into IFRS (i.e. January 1,



2010) as though they had been immediately recognized. Consistent with past practice, the actuarial present value of retirement benefits method is used to determine the defined benefit obligations for all members of that plan. The net effect of the adoption of this IFRS 1 exemption is to increase the liability recognized on the balance sheet at January 1, 2010 by \$232,000 and reduce retained earnings by the same amount; and

- Transferring the balance previously recorded as Cumulative Translation Adjustment in Other Comprehensive Income into retained earnings.

## Recent Accounting Pronouncements

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9"), was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in International Accounting Standard 39 "IAS 39" for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either now recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

## Additional Future Accounting Considerations

As a result of a change in the methodology of depreciation to depreciate its major assets by component as required under IFRS, the Company is considering changing its estimates of useful lives of its rigs. Currently, most of the Company's rigs are being depreciated over 2,000 operating days while selected rigs are being depreciated over 3,600 operating days. The Company is considering a decision to depreciate all of its rigs over an average useful life of 3,600 operating days per rig. If this change is made it will also align AKITA's rates to conform with many other members in the industry.

The Company is also considering a change to the way that it records salvage values for its rigs. Currently, the Company depreciates its rig assets to a salvage value between \$50,000 and \$300,000. The Company is considering applying a salvage value equal to 20% of original cost. This change is expected to have its greatest impact on the recording during the year of adoption, but will have a lesser effect going forward.

If implemented, these changes would be applied on a prospective basis.

## Future Outlook and Strategy

The drilling industry is cyclical and certain key factors that have an impact on AKITA's results are beyond management's control. Like other drilling contractors, AKITA is exposed to the effects of fluctuating oil and gas prices and changes in the exploration and development budgets of its customers.

Certain aspects of the drilling market have recently improved and other aspects continue to appear to be strong. However, opportunities to drill deep natural gas prospects remain weak.



Management believes that pad drilling, which has led the market during the past two years, will continue to be the most profitable aspect of AKITA's business in the short and medium term, and potentially beyond. AKITA began 2010 with eight pad rigs. During the year, the Company added moving systems to two of its light capacity double rigs in order to drill on a specialized program. AKITA converted one of its arctic rigs into a pad rig suitable for drilling up to 4,000 metres for either heavy oil or shale gas prospects and also upgraded one of its existing pad rigs. Consequently, at the end of 2010, AKITA had 11 pad rigs. In addition, the Company has a new heavy oil pad rig under construction for delivery to a major customer in 2011.

Demand is expected to continue to be strong for conventional heavy capacity double sized rigs and light to medium capacity triple sized rigs. The Company has six rigs that are suitable for this market.

AKITA has been active in potash related drilling for the past four years. The Company is currently drilling a specialized potash project that is anticipated to continue until spring, 2011. Potential follow up work exists, but the ongoing volume of potash drilling for the Company is unknown at this time.

With respect to shallow capacity rigs, 2010 was slow for the most of the year; however the 2010/2011 winter season has shown a strong increase in demand. It is anticipated that demand for this class of rig will be stronger for the remainder of 2011, compared to the corresponding period in 2010.

Deep and ultra-deep conventional rigs typically drill for natural gas targets. Opportunities for this size of rig have been slow throughout 2010 and market conditions are anticipated to continue to be weak for 2011 due to the low price for natural gas. AKITA has five rigs in this category.

On October 22, 2010, the Canadian Association of Oilwell Drilling Contractors released its 2011 industry drilling forecast which estimated 11,811 wells, down from 12,145 wells completed in 2010. The 2011 forecast was based upon commodity price assumptions of US \$80 per barrel for crude oil and CAD \$4.00 per mcf for natural gas. Despite the lower number of wells projected for 2011, due to an expected increase in the number of horizontal wells to be drilled, it is anticipated that there will be a 10.8% increase in overall drilling days in 2011 compared to 2010. Winter drilling activity levels to date appear to support this forecasted increase, however, management remains cautious regarding post-break up drilling levels given the continuing natural gas price weakness.

During 2007, the Company commenced a long-term contract with a private corporation to provide drilling services with one of its new heavy oil pad rigs. This contract has an initial term of four years.

During 2008, the Company entered into long-term contracts with a large corporation for the provision of two of its existing rigs. Retrofits took place in order to convert these rigs into self-moving pad configurations. Both rigs commenced work under these contracts in 2009.

During 2010, the Company entered into a long-term contract with a major corporation to convert one of its existing rigs into a self moving pad configuration. A retrofit took place and the rig commenced work in 2011.

The Company also entered into a long-term contract with another large corporation to provide drilling services with a new heavy oil pad rig. This rig is currently under construction and is expected to commence work in 2011.



In 2010, the National Energy Board recommended the development of the Mackenzie Valley Pipeline to the federal cabinet for approval. Should cabinet agree with this recommendation to proceed, the project would still require the approval of the industry participants.

At this time, whether or not the Mackenzie Valley Pipeline project will be constructed, together with the duration of construction if the project does proceed, are unknown. In addition to regulatory hurdles, the project also faces economic challenges primarily related to weak natural gas prices. AKITA remains well positioned to capitalize on any drilling opportunities that might arise as a result of this pipeline being built since the Company has specialized equipment, experience and expertise and has developed numerous key relationships with customers, partners and suppliers who would benefit from the project going forward.

Longer term, the Company is well positioned in terms of drilling potential for shallow and deep natural gas, heavy and conventional oil and to take advantage of any increasing activity in Northern Canada. Further, AKITA has successfully demonstrated its ability to convert conventional rigs into pad configurations. AKITA's strategy over the past years has been to develop equipment and key relationships to effectively target specific market opportunities.

Since AKITA's growth strategy focuses on the addition of drilling rigs primarily through the attainment of term contracts using limited financial leverage, routine capital spending is typically restricted to 50% of cash flow from operations in most years.

## **Disclosure Controls and Internal Controls Over Financial Reporting**

As of December 31, 2010, the Company's management evaluated the effectiveness of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer.

Disclosure Controls and procedures are controls and other procedures designed to provide reasonable assurance that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, including the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, does not expect that the Company's Disclosure Controls will prevent or detect all errors or all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error within the Company, if any, have been detected.

Based on the evaluation of Disclosure Controls, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that the Company's Disclosure Controls are effective in ensuring that material information relating to the Company is made known to the Company's management on a timely basis by others within those entities, and is included as appropriate in this MD&A as well as other continuous disclosure documents filed by the Company.



As of December 31, 2010, the management of the Company evaluated the effectiveness of internal control over financial reporting ("Internal Control Over Financial Reporting"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer. The Company's Internal Control Over Financial Reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal Control Over Financial Reporting, no matter how well designed, has inherent limitations. Therefore, Internal Control Over Financial Reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Based on this evaluation, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer have concluded that the Company's Internal Control Over Financial Reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

There were no changes in the Company's Internal Controls Over Financial Reporting that have occurred during the year, including the three months ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's Internal Control Over Financial Reporting.

## Forward-Looking Statements

From time to time AKITA makes forward-looking statements. These statements include but are not limited to comments with respect to AKITA's objectives and strategies, financial condition, results of operations, the outlook for industry and risk management discussions.

By their nature, these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that the predictions and other forward-looking statements will not be achieved. Readers of this MD&A are cautioned not to place undue reliance on these statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, estimates and intentions expressed in such forward-looking statements.

Forward-looking statements may be influenced by the following factors: the level of exploration and development activity carried on by AKITA's customers, world crude oil prices, North American natural gas prices, weather, access to capital markets and government policies. We caution that the foregoing list of factors is not exhaustive and that while relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors as well as other uncertainties and events.

## Other Information

Additional information is provided by the Company in its Annual Information Form, Notice of Annual Meeting and Information Circular all dated March 18, 2011. Copies of this information including additional copies of the Annual Report for the year ended December 31, 2010 may be obtained upon request from the Vice President, Finance and Chief Financial Officer of the Company at 900, 311 – 6th Avenue S.W., Calgary, Alberta, T2P 3H2 or at [www.sedar.com](http://www.sedar.com).



## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to AKITA contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and are in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the Company operates. Where necessary, management made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements including estimates related to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, the measurement of the defined benefit pension liability and assumptions around future income tax calculations. Financial information throughout this Annual Report is consistent with the consolidated financial statements.

Management ensures the integrity of the consolidated financial statements by maintaining a system of internal control. This system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled, Internal Control – Integrated Framework. The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in Canada. The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports is disclosed, processed and summarized and reported within specified time periods. Internal controls are monitored through self-assessments and are reinforced through a Code of Business Conduct, which sets forth the Company's commitment to conduct business with integrity, and within both the letter and the spirit of the law.

PricewaterhouseCoopers LLP, the Company's independent auditors, have conducted an examination of the consolidated financial statements and have had full access to the Audit Committee. Their report appears on page 25.

The Board of Directors, through its Audit Committee comprised of two independent directors as defined in National Instrument 52-110 – Audit Committees ("NI 52-110"), and one director who is exempt from the independence requirements of NI 52-110, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters and to gain assurance that management is carrying out its responsibilities.



Karl A. Ruud  
President and Chief Executive Officer



Murray J. Roth  
Vice President, Finance and Chief Financial Officer

# Auditors' Report

## To the Shareholders of AKITA Drilling Ltd.

We have audited the accompanying consolidated financial statements of AKITA Drilling Ltd. and its subsidiaries which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statement of earnings and retained earnings, cash flows and comprehensive income for the years then ended, and the related notes including a summary of significant accounting policies.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AKITA Drilling Ltd. and its subsidiaries as at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants  
Calgary, Alberta

March 18, 2011



# Consolidated Balance Sheets

December 31 (\$000's of Canadian Dollars)		2010	2009
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 37,964	\$ 34,142
Term deposits		10,000	18,000
Accounts receivable	Note 13	33,339	28,523
Income taxes recoverable		—	330
Other		222	421
		<b>81,525</b>	<b>81,416</b>
Restricted cash	Note 16	2,500	5,000
Capital assets	Note 2	158,625	147,799
		<b>\$ 242,650</b>	<b>\$ 234,215</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 18,832	\$ 10,123
Dividends payable		1,269	1,277
Income taxes payable		85	—
Deferred revenue		—	197
		<b>20,186</b>	<b>11,597</b>
Future income taxes	Note 9	20,140	20,041
Pension liability	Note 4	1,229	1,131
		<b>41,555</b>	<b>32,769</b>
<b>Class A and Class B Shareholders' Equity</b>			
Class A and Class B shares	Note 5	23,447	23,376
Contributed surplus		2,512	2,271
Accumulated other comprehensive income	Note 6	(500)	(354)
Retained earnings		175,636	176,153
		<b>201,095</b>	<b>201,446</b>
		<b>\$ 242,650</b>	<b>\$ 234,215</b>

Approved by the Board



Director



Director

# Consolidated Statements of Earnings and Retained Earnings

Year ended December 31 (\$000's of Canadian Dollars, except per share amounts)		2010	2009
<b>Revenue</b>		<b>\$ 111,131</b>	<b>\$ 106,263</b>
<b>Costs and expenses</b>			
Operating and maintenance		69,162	67,649
Depreciation		20,873	17,476
Selling and administrative		13,464	9,942
		<b>103,499</b>	<b>95,067</b>
Revenue less costs and expenses		<b>7,632</b>	<b>11,196</b>
<b>Other income (expense)</b>			
Interest income		773	524
Gain on sale of joint venture interests in rigs and other assets		75	396
Gain (loss) on foreign currency translation		30	(215)
		<b>878</b>	<b>705</b>
<b>Earnings before income taxes</b>		<b>8,510</b>	<b>11,901</b>
<b>Income taxes</b>			
Current		2,911	2,096
Future		(102)	1,425
	Note 9	<b>2,809</b>	<b>3,521</b>
<b>Net earnings</b>		<b>5,701</b>	<b>8,380</b>
Retained earnings, beginning of year		176,153	172,878
Dividends declared		(5,079)	(5,105)
Adjustment on repurchase and cancellation of share capital	Note 5	(1,139)	—
<b>Retained earnings, end of year</b>		<b>\$ 175,636</b>	<b>\$ 176,153</b>
<b>Earnings per Class A and Class B share</b>	Note 7		
Basic		<b>\$ 0.31</b>	<b>\$ 0.46</b>
Diluted		<b>\$ 0.31</b>	<b>\$ 0.46</b>



# Consolidated Statements of Cash Flows

Year ended December 31 (\$000's of Canadian Dollars)	2010	2009
<b>Operating activities</b>		
Net earnings	\$ 5,701	\$ 8,380
Non-cash items included in earnings		
Depreciation	20,873	17,476
Future income taxes	(98)	1,223
Expense (recovery) for defined benefit pension plan	98	(2,723)
Stock options charged to expense	241	—
Gain on sale of joint venture interests in rigs and other assets	(75)	(396)
Funds flow from operations	26,740	23,960
Change in non-cash working capital	10,701	5,275
	37,441	29,235
<b>Investing activities</b>		
Capital expenditures	(31,837)	(12,341)
Reduction in cash restricted for loan guarantees	2,500	—
Proceeds on sale of joint venture interests in rigs and other assets	213	506
Change in non-cash working capital	1,601	(20,031)
	(27,523)	(31,866)
<b>Financing activities</b>		
Dividends paid	(5,079)	(5,105)
Proceeds received on exercise of stock options	280	64
Repurchase of share capital	(1,348)	—
	(6,147)	(5,041)
<b>Foreign currency translation</b>	51	(354)
<b>Increase (decrease) in cash</b>	3,822	(8,026)
Cash position, beginning of year	34,142	42,168
<b>Cash position, end of year</b>	\$ 37,964	\$ 34,142
Interest paid during the year	\$ 25	\$ 66
Income taxes paid during the year	\$ 2,497	\$ 2,825

# Consolidated Statements of Comprehensive Income

Year ended December 31 (\$000's of Canadian Dollars)		2010	2009
<b>Net earnings</b>		<b>\$ 5,701</b>	<b>\$ 8,380</b>
<b>Other comprehensive loss</b>			
Foreign currency translation adjustment	Note 6	(146)	(354)
<b>Comprehensive income</b>		<b>\$ 5,555</b>	<b>\$ 8,026</b>



# Notes to Consolidated Financial Statements

December 31, 2010

## 1. Summary of Significant Accounting Policies

### Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of AKITA Drilling Ltd. ("AKITA" or the "Company"), its subsidiaries and a proportionate share of its joint venture entities (consisting of drilling rigs).

### Revenue Recognition on Contracts

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. On daywork contracts, work in progress is measured based upon the passage of time. On meterage contracts, work in progress is based upon the depth drilled.

The Company's services are generally sold based upon contracts with customers that include fixed or determinable prices based upon daily rates. Customer contract terms do not include provisions for significant post-service delivery obligations. Revenue is recognized when services are rendered and only when collectability is reasonably assured.

### Capital Assets and Depreciation

Capital assets are recorded at cost. Costs associated with equipment upgrades that result in increased capabilities or performance enhancements of capital assets are capitalized. Costs incurred to repair or maintain capital assets are charged to expense as incurred.

Drilling rigs are depreciated using the unit of production method based on an initial estimated life of 2,000 or 3,600 operating days per rig depending upon the relative amount of moving required, the age of the equipment when acquired by AKITA as well as other factors that may result in different rates. Drilling rigs are subject to certain minimum annual depreciation.

Replacement drill pipe and other ancillary drilling equipment are depreciated using a straight-line basis at rates varying from 6% to 12.5% per annum. Other assets are depreciated using the declining balance method at rates varying from 4% to 25% per annum except drilling camps, which are depreciated using a straight-line basis over 10 years.

Management assesses the carrying values of capital assets on a periodic basis for indications of impairment. Indications of impairment include lack of profitability and significant changes in technology. When an indication of impairment is present, the Company tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its fair value.

## **Stock-Based Compensation Plans**

The Company has two stock-based compensation plans, which are described in Note 8. The Company records compensation expense and contributed surplus, based on the estimated fair value, over the vesting period for stock options. Any consideration paid by employees on exercise of stock options is credited to share capital along with the related contributed surplus.

Compensation expense for share appreciation rights is accounted for using the intrinsic value method and is accrued monthly based upon the excess of underlying month-end share price over the base value of the rights. The accrued liability is adjusted for the effect of changes in the underlying share price through charges or credits to compensation expense.

## **Income Taxes**

The Company records income taxes using the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using tax rates that are enacted or substantively enacted to be in effect when the differences are expected to reverse. The effect of a change in tax rates is recognized in income in the period that the change becomes substantively enacted.

## **Employee Future Benefits**

The Company accrues for its obligations under its defined benefit pension plan. Costs of these benefits are determined using the projected benefits method prorated on service and reflect management's best estimates of wage and salary increases and age at retirement. Any unrecognized amounts resulting from experience gains or losses or changes in actuarial assumptions in excess of 10% of the actuarial present value of retirement benefits are amortized over the expected remaining service lifetime of each individual on a straight-line basis.

Employer contributions to the defined contribution pension plan and group Registered Retirement Savings Plan ("RRSP") are expensed as incurred.

## **Per Share Data**

Basic earnings per share have been calculated on the basis of the weighted average number of Class A Non-Voting and Class B Common shares outstanding during the year. Diluted earnings per share have been calculated using the treasury stock method. Under the treasury stock method, the dilutive effects of all potentially dilutive instruments are included in the weighted average number of shares. It is also assumed that no cash flow or income is earned on the proceeds received from the dilutive shares issued, but rather, the proceeds are used to buy back shares at the weighted average market price experienced during the year. The weighted average number of shares is then reduced by the number of shares acquired.

## **Joint Ventures**

The Company conducts some of its activities in Canadian provinces and most of its operations in Canada's Northern Territories and the United States through joint ventures. Ownership in, and results of operations from these joint ventures are recorded under the proportionate consolidation method whereby only the Company's share of the assets, liabilities, revenue and expenses are recognized.

## **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash and highly liquid short-term investments with maturities of three months or less.



## Financial Instruments and Credit Risk

The Company's financial assets and liabilities include cash and cash equivalents, term deposits, restricted cash, accounts receivable, accounts payable and accrued liabilities. During the year, the Company did not hold or issue any derivative financial instruments. Fair values approximate carrying values unless otherwise stated. The Company has adopted the following classification for financial assets and liabilities:

- Cash equivalents, term deposits and restricted cash are classified as "Held to Maturity"
- Accounts receivable are classified as "Loans and Receivables"
- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities"

Transaction costs related to financial instruments, if incurred, are charged to expense.

## Translation of Foreign Currencies

Monetary assets and liabilities of integrated foreign entities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet date and nonmonetary assets and liabilities are translated at historical exchange rates. Foreign currency income and expenses of integrated foreign entities are translated at average monthly exchange rates prevailing throughout the year. Unrealized translation gains and losses and all realized gains and losses of integrated foreign entities are included in Other Income.

Assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date and revenues and expenses are translated at the average monthly rates of exchange during the year. Gains or losses on translation of self-sustaining foreign operations are included in Accumulated Other Comprehensive Income in Shareholders' Equity.

## Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts for revenue and expenses during the year. Significant estimates used in the preparation of these financial statements include estimates relating to transactions and operations that were incomplete at year-end, the useful lives of drilling rigs and other assets, projections of the drilling rig's undiscounted future cash flows for use in assessing rig asset impairment conditions, the measurement of the defined benefit pension liability and assumptions around future income tax calculations. Actual results could differ materially from these estimates.

## 2. Capital Assets

(Dollars in thousands)	2010		2009	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Drilling rigs and related equipment	\$ 302,149	\$ 148,655	\$ 271,052	\$ 128,841
Other	10,415	5,284	10,099	4,511
	312,564	153,939	281,151	133,352
Net Book Value	\$ 158,625		\$ 147,799	

The Company had \$19,345,000 in capital assets that were not being depreciated, as they were under construction at December 31, 2010 (December 31, 2009 - \$Nil).

### 3. Credit Line

During 2009, the Company had a \$10,000,000 operating loan facility at bank prime secured by a general assignment covering substantially all of the Company's assets.

In January, 2010, the Company determined that it was cost effective to eliminate its operating loan facility and therefore cancelled it.

### 4. Pension Liability

The Company has a defined contribution pension plan that covers substantially all of its employees. Under the provisions of the plan, the Company contributes 5% of regular earnings for eligible employees on a current basis. In addition, employees having eligible terms of service are subject to admission into the group RRSP.

The Company has a defined benefit pension plan for certain employees. The defined benefit plan, which provides for pensions based upon the age of the retiree at the date of retirement is non-contributory and unfunded. No current service cost was incurred in either 2010 or 2009.

(Dollars in thousands)	<b>2010</b>	2009
Actuarial present value of defined benefit obligation at January 1	<b>\$ 1,363</b>	\$ 3,604
Interest cost	<b>81</b>	214
Benefits paid	<b>(15)</b>	(113)
Actuarial (gain) loss	<b>163</b>	(2,342)
Actuarial present value of defined benefit obligation at December 31	<b>\$ 1,592</b>	\$ 1,363
(Dollars in thousands)	<b>2010</b>	2009
Actuarial present value of defined benefit obligation	<b>\$ 1,592</b>	\$ 1,363
Amounts not yet recognized in financial statements		
Unamortized net losses	<b>(254)</b>	(93)
Unamortized transitional obligation	<b>(109)</b>	(139)
Accrued pension liability as at December 31	<b>\$ 1,229</b>	\$ 1,131
Assumptions	<b>2010</b>	2009
(per cent)		
Discount Rate at year-end	<b>5.25</b>	6.00
Rate of compensation growth	<b>N/A</b>	N/A

The Company obtains an annual actuarial valuation subsequent to each year-end from an independent actuary. The most recent evaluation was dated January 19, 2011 and was utilized in measuring the December 31, 2010 year-end balance as well as related activities during the year.

During 2010, the Company charged \$1,931,000 to selling and administrative expense in respect of its defined contribution pension plan (2009 - \$2,852,000) and charged \$98,000 to selling and administrative expense in respect of its defined benefit pension plan (2009 recovered from selling and administrative expense - \$2,610,000).



## 5. Class A Non-Voting and Class B Common Shares

### Authorized

An unlimited number of Class A Non-Voting shares  
An unlimited number of Class B Common shares

### Issued

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	Consideration (000's)	Number of Shares	Consideration (000's)	Number of Shares	Consideration (000's)
December 31, 2008	16,568,333	\$ 21,946	1,654,284	\$ 1,366	18,222,617	\$ 23,312
Stock options exercised in 2009	14,000	64	—	—	14,000	64
December 31, 2009	16,582,333	\$ 22,010	1,654,284	\$ 1,366	18,236,617	\$ 23,376
Shares repurchased in 2010	(158,104)	(209)	—	—	(158,104)	(209)
Stock options exercised in 2010	52,000	280	—	—	52,000	280
Conversions Class B to Class A	400	—	(400)	—	—	—
<b>December 31, 2010</b>	<b>16,476,629</b>	<b>\$ 22,081</b>	<b>1,653,884</b>	<b>\$ 1,366</b>	<b>18,130,513</b>	<b>\$ 23,447</b>

Each Class B Common share may be converted into one Class A Non-Voting share at the shareholder's option. If a takeover bid is made for the Class B Common shares, holders of Class A Non-Voting shares are entitled, in certain circumstances, for the duration of the bid, to exchange each Class A Non-Voting share for one Class B Common share for the purpose of depositing the resulting Class B Common shares pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

For most of 2010 and 2009, the Company had outstanding normal course issuer bids for the purchase of up to 3% of the outstanding Class A Non-Voting shares. In 2010, 158,104 shares were repurchased and cancelled under normal course issuer bids at a cost of \$1,348,000 of which \$209,000 was charged to share capital and \$1,139,000 to retained earnings. No shares were repurchased in 2009 under normal course issuer bids. The most recent offer expired on October 7, 2010.

## 6. Accumulated Other Comprehensive Loss

Other comprehensive loss of the Company is comprised of the foreign currency translation adjustment relating to self-sustaining foreign operations. Changes in accumulated other comprehensive loss are summarized below:

(Dollars in thousands)	2010	2009
Accumulated comprehensive loss, beginning of year	\$ (354)	\$ —
Other comprehensive loss for the year	(146)	(354)
Accumulated comprehensive loss, end of year	\$ (500)	\$ (354)

## 7. Earnings per Share

	2010	2009
Net earnings (Dollars in thousands)	\$ 5,701	\$ 8,380
Weighted average outstanding shares	18,148,246	18,230,913
Incremental shares	62	16,974
Basic earnings per share (\$)	\$ 0.31	\$ 0.46
Diluted earnings per share (\$)	\$ 0.31	\$ 0.46

## 8. Stock-Based Compensation Plans

At December 31, 2010, the Company had two stock-based compensation plans, which are described below.

Subject to the approval of the Company's Board of Directors, the Company's Corporate Governance, Nomination, Compensation and Succession Committee, may designate directors, officers, employees and other persons providing services to the Company to be offered options to purchase Class A Non-Voting shares. A maximum of 1,700,000 Class A Non-Voting shares have been reserved for issuance pursuant to outstanding options. The vesting provisions and exercise period (which cannot exceed 10 years) are determined at the date of grant.

In addition to stock options, share appreciation rights (SARs) may be granted to directors, officers and key employees of the Company. The vesting provisions (which range from three to eight years) and exercise period (which cannot exceed 10 years) are determined at the time of grant. The holder is entitled on exercise to receive a cash payment from the Company equal to any increase in the market price of the Class A Non-Voting shares over the base value of the SAR exercised. The base value is equal to the closing price of the Class A Non-Voting shares on the day before the grant.

The Company did not have any outstanding SARs during either 2010 or 2009. A summary of the status of the Company's stock based compensation plans as of December 31, 2010 and 2009, and changes during the years ended on those dates is presented below:

	2010		2009	
	Options	Weighted Average Exercise Price (\$)	Options	Weighted Average Exercise Price (\$)
Options outstanding at beginning of year	156,000	8.41	182,000	8.33
Options granted	157,500	9.87	—	—
Options exercised	(52,000)	5.40	(14,000)	4.60
Options expired	(22,000)	9.94	(12,000)	11.72
Options outstanding at end of year	239,500	9.88	156,000	8.41
Options exercisable at year-end	108,000	9.89	145,000	8.29



The following table summarizes information about stock-based compensation plans at December 31, 2010:

Nature of Compensation	Exercise Price (\$)	Number Outstanding	Remaining Contractual Life (years)	Number Exercisable
Options	8.405	2,000	1.6	2,000
Options	9.940	80,000	2.1	74,500
Options	9.870	157,500	9.3	31,500
Weighted Average Contractual Life			6.8	

During 2010, the Company recorded compensation expense and a corresponding increase to contributed surplus of \$241,000 for options granted in 2010. Compensation expense was determined using the Binomial Model. During 2009, the Company did not record any compensation expense or changes to contributed surplus related to stock options.

Compensation expense was determined based on the following assumptions:

Risk free interest rate	3.09%
Expected volatility	34.9%
Dividends yield rate	3.30%
Weighted average expected life of options	7 years
Weighted average fair value	\$9.87

## 9. Income Taxes

The income tax provision differs from that which would be computed using the statutory rate. A reconciliation of the differences is as follows:

(Dollars in thousands)	<b>2010</b>	2009
Earnings before income taxes	<b>\$ 8,510</b>	\$ 11,901
Expected income tax at statutory rate of 28.47% (2009 - 29.69%)	<b>2,423</b>	3,533
Add (Deduct)		
Increase (reduction) in future income tax rates	<b>2</b>	(970)
Permanent differences	<b>90</b>	69
Jurisdictional rate difference	<b>276</b>	1,119
Other	<b>18</b>	(230)
Income tax expense	<b>\$ 2,809</b>	\$ 3,521

The net future tax liability is comprised of the tax effect of the following temporary differences:

(Dollars in thousands)	<b>2010</b>	2009
Capital assets	<b>\$ 73,034</b>	\$ 75,045
Employee pension benefits	<b>(1,229)</b>	(1,131)
Other	<b>1,941</b>	(181)
	<b>73,746</b>	73,733
Expected future income tax rate	<b>27.31%</b>	27.18%
Future income taxes at expected tax rate	<b>\$ 20,140</b>	\$ 20,041

## 10. Related Parties

The Company is related to the ATCO Group of companies and to Spruce Meadows through its majority shareholder. The accompanying table summarizes transactions and year-end balances with those affiliates. These transactions were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. Each was considered to be at fair market value.

(Dollars in thousands)	2010	2009
Revenue (computer services)	\$ 30	\$ 30
Purchases		
Capital (wellsite trailers, other)	—	140
Operating (sponsorship and advertising (Note 16), shared employee services, other)	481	582
Year end accounts receivable	3	3
Year end accounts payable	—	16

## 11. Future Accounting Changes

In February 2008, the CICA's Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented Canadian publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS beginning in 2011.

## 12. Capital Disclosures

The Company has determined capital to include long-term debt (\$Nil at December 31, 2010 and December 31, 2009) and share capital. The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to augment existing resources in order to meet growth requirements

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase or issue new shares, sell assets or take on long-term debt.

## 13. Financial Instruments

### Financial Instrument Risk Exposure and Management

The Company is exposed to various risks associated with its financial instruments. These risks are categorized as credit risk, foreign currency risk and potentially, liquidity risk. In addition, the Company is indirectly exposed to interest rate risk since the Company is typically non-borrowing and is directly exposed to fluctuations in interest rates through its investment in bank guaranteed highly liquid investments. The Company is also indirectly exposed to commodity risk relating to commodity prices due to the industry in which it works.



## Credit Risk

The credit risk associated with accounts receivable is generally considered to be low since substantially all counter parties are well established and financed oil and gas companies. The Company has detailed credit granting procedures and in certain circumstances may require customers to make advance payment prior to the provision of services or take other measures to help reduce credit risk. Provisions have been estimated by management and included in the accounts to recognize potential bad debts.

The table of accounts receivable below shows no significant credit risk exposure in the balances outstanding at December 31:

(Dollars in thousands)	2010	2009
Within 30 days	\$ 23,027	\$ 22,987
31 to 60 days	8,508	4,530
61 to 90 days	1,846	971
Over 90 days	44	148
Allowance for doubtful accounts	(86)	(113)
Accounts receivable	\$ 33,339	\$ 28,523

## Foreign Currency Risk

The Company is exposed to changes in foreign exchange rates as revenues, capital expenditures or financial instruments may fluctuate due to changing rates. At December 31, 2010 and December 31, 2009, AKITA's exposure was limited substantially to its operations in the United States, which constituted 2% of its total revenue (2009 – 13%).

## Liquidity Risk

The Company is exposed to liquidity risk through its working capital balance. At December 31, 2010 and December 31, 2009, this risk was limited due to having cash balances significantly in excess of total current liabilities.

## Market Risk

Market risk is the risk that the fair value (for assets or liabilities considered to be held for trading and available for sale) or future cash flows (for assets or liabilities considered to be held-to-maturity, other financial liabilities, and loans and receivables) of a financial instrument will fluctuate as a result of changes in market prices. The Company evaluates market risk on an ongoing basis. During 2010, the Company had mitigation programs to reduce market risk related to drilling demand changes through having a portion of its fleet working under longer term contracts.

## 14. Joint Ventures

The following table summarizes the Company's share of assets, liabilities, revenues and expenses related to its joint venture operations:

(Dollars in thousands)	2010	2009
Current assets	\$ 4,727	\$ 5,997
Capital assets, net of accumulated depreciation	47,608	56,474
Current liabilities	926	2,503
Revenue	21,011	30,228
Expenses	18,165	23,979
Net earnings	2,846	6,249
Cash flow from operating activities	8,380	10,210
Cash flow from financing activities	—	—
Cash flow from investing activities	(869)	(1,376)

## 15. Significant Customers

During 2010, four customers (2009 – three customers) each provided more than 10% of the Company's total revenue. In management's assessment, the future viability of the Company is not dependent upon these major customers.

## 16. Commitments

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2010, the Company had six rigs with multi-year contracts. Of these contracts, one is anticipated to expire in 2011, one in 2012, three in 2013 and the remaining contract in 2014.

In 2004 and 2006, the Company entered into multi-year sponsorship and advertising contracts with Spruce Meadows. At December 31, 2010, the remaining commitment was \$1,373,000. Costs related to these contracts during 2010 were \$325,000 (2009 - \$325,000) (Note 10). These contracts have been extended until 2013 and 2015.

The Company leases its office space at an annual cost of approximately \$355,000 - \$509,000 per year. This lease expires on December 31, 2014.

During 2007, the Company guaranteed loans made to joint venture partners totalling \$4.5 Million for a period of four years. The Company initially provided an assignment of monies on deposit totalling \$5 Million with respect to these loans. In 2010, the assignment of monies on deposit was reduced to \$2.5 Million. These funds have been classified as "Restricted Cash" on the consolidated balance sheet. The Company's security from its partners for these guarantees includes interests in specific rig assets. This commitment was fulfilled in January, 2011 as final payments for all loans were made at that time.



## 17. Segmented Information

The Company operates in one business segment that provides contract drilling services for its customers.

(Dollars in thousands)	Domestic		United States		Consolidated	
	2010	2009	2010	2009	2010	2009
Revenue	\$ 107,604	\$ 92,002	\$ 3,527	\$ 14,261	\$ 111,131	\$ 106,263
Capital assets at year-end	\$ 147,848	\$ 136,433	\$ 10,777	\$ 11,366	\$ 158,625	\$ 147,799

# Corporate Information

## Directors

Loraine M. Charlton  
Corporate Director  
Calgary, Alberta

Arthur C. Eastly  
Corporate Director  
Calgary, Alberta

Linda A. Heathcott  
President, Spruce Meadows,  
President, Team Spruce Meadows Inc.  
Chairman of the Board  
of the Company  
Calgary, Alberta

Dale R. Richardson  
Vice President,  
Sentgraf Enterprises Ltd.  
Calgary, Alberta

Karl A. Ruud  
President and Chief  
Executive Officer

Nancy C. Southern  
Deputy Chair, President and  
Chief Executive Officer, ATCO Ltd.  
and Canadian Utilities Limited  
Calgary, Alberta

Ronald D. Southern,  
C.C., C.B.E., B.Sc., LL.D.  
Chairman, ATCO Ltd. and  
Canadian Utilities Limited,  
Deputy Chairman of the  
Board of the Company  
Calgary, Alberta

C. Perry Spitznagel, Q.C.  
Vice Chairman and Managing Partner  
(Calgary), Bennett Jones LLP  
Calgary, Alberta

Charles W. Wilson  
Corporate Director  
Evergreen, Colorado

## Officers

Raymond T. Coleman  
Vice President,  
Operations

Fred O. Hensel  
Vice President,  
Marketing

Craig W. Kushner  
Corporate Secretary and  
Human Resources Administrator

John M. Pahl  
Vice President,  
Joint Ventures and  
Business Development

Murray J. Roth  
Vice President, Finance and  
Chief Financial Officer

Karl A. Ruud  
President and Chief Executive Officer

## Head Office

AKITA Drilling Ltd.,  
900, 311 – 6th Avenue S.W.,  
Calgary, Alberta T2P 3H2  
(403) 292-7979

## Banker

Alberta Treasury Branches  
Calgary, Alberta

## Counsel

Bennett Jones LLP  
Calgary, Alberta

## Auditors

PricewaterhouseCoopers LLP  
Calgary, Alberta

## Registrar and Transfer Agent

CIBC Mellon Trust Company  
Calgary, Alberta and Toronto, Ontario  
1-800-387-0825

## Share Symbol / TSX

Class A Non-Voting (AKT.A)  
Class B Common (AKT.B)

## Website

[www.akita-drilling.com](http://www.akita-drilling.com)



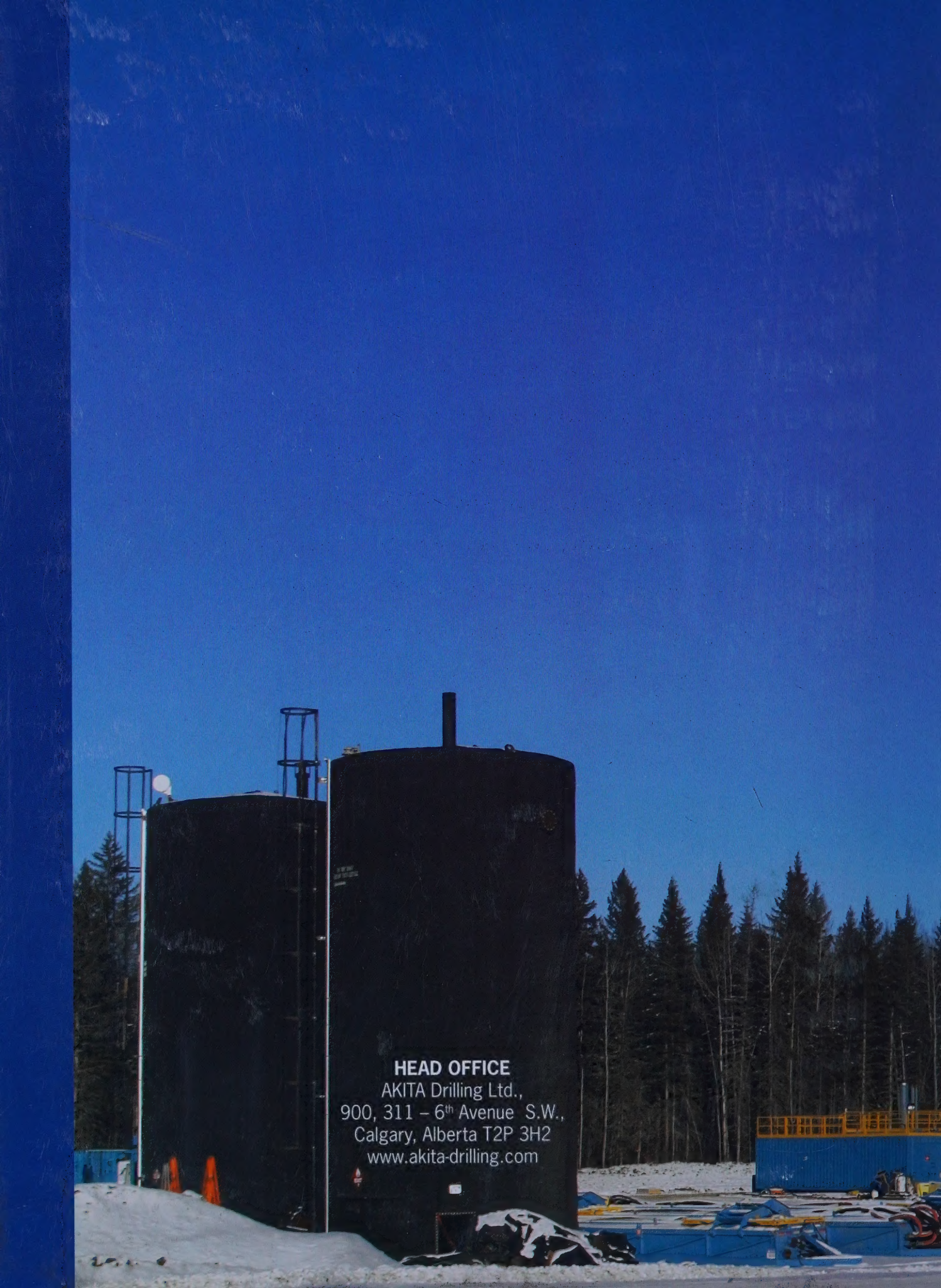
# 10 Year Financial Review

(Dollars in thousands, except per share)

	Annual Ranking	2010	2009	2008
<b>Summary of Operations</b>				
Revenue	7	\$ 111,131	\$ 106,263	\$ 137,246
Earnings before income taxes	10	\$ 8,510	\$ 11,901	\$ 20,133
Income taxes	10	\$ 2,809	\$ 3,521	\$ 7,147
Net earnings	10	\$ 5,701	\$ 8,380	\$ 14,847
As a percentage of average shareholders' equity	10	2.8%	4.2%	7.7%
Earnings per Class A and Class B shares	10	\$ 0.31	\$ 0.46	\$ 0.81
Funds flow from continuing operations	9	\$ 26,740	\$ 23,960	\$ 34,149
As a percentage of average shareholders' equity	9	13.3%	12.0%	17.6%
<b>Financial position at year end</b>				
Working capital	3	\$ 61,339	\$ 69,819	\$ 63,089
Current ratio	2	4.04:1	7.02:1	3.90:1
Total assets	2	\$ 242,650	\$ 234,215	\$ 242,869
Shareholders' equity	2	\$ 201,095	\$ 201,446	\$ 198,461
per share	1	\$ 11.09	\$ 11.05	\$ 10.89
<b>Other</b>				
Capital expenditures (Net)	4	\$ 31,624	\$ 11,835	\$ 14,622
Depreciation	1	\$ 20,873	\$ 17,476	\$ 16,667

2007	2006	2005	2004	2003	2002	2001
\$ 141,962	\$ 174,543	\$ 162,110	\$ 135,747	\$ 124,078	\$ 102,895	\$ 110,844
\$ 28,667	\$ 48,129	\$ 44,770	\$ 32,121	\$ 28,678	\$ 23,473	\$ 30,395
\$ 7,525	\$ 14,374	\$ 15,506	\$ 11,246	\$ 9,856	\$ 9,128	\$ 12,506
\$ 20,752	\$ 33,755	\$ 29,264	\$ 20,875	\$ 18,822	\$ 14,345	\$ 17,889
11.5%	21.0%	21.4%	18.3%	19.4%	16.7%	25.8%
\$ 1.14	\$ 1.83	\$ 1.57	\$ 1.15	\$ 1.04	\$ 0.79	\$ 0.99
\$ 37,143	\$ 47,199	\$ 42,421	\$ 33,947	\$ 30,426	\$ 27,459	\$ 26,959
20.6%	29.4%	31.0%	29.7%	31.3%	32.0%	38.9%
\$ 49,123	\$ 56,681	\$ 59,499	\$ 40,414	\$ 24,319	\$ 26,551	\$ 19,823
3.92:1	2.77:1	2.74:1	2.83:1	1.82:1	2.52:1	1.77:1
\$ 223,522	\$ 222,237	\$ 199,852	\$ 162,957	\$ 150,901	\$ 133,901	\$ 145,859
\$ 188,038	\$ 172,873	\$ 148,366	\$ 124,926	\$ 103,590	\$ 90,947	\$ 80,472
\$ 10.29	\$ 9.43	\$ 8.00	\$ 6.70	\$ 5.74	\$ 4.97	\$ 4.42
\$ 33,505	\$ 40,655	\$ 18,386	\$ 15,308	\$ 16,122	(\$ 2,061)	\$ 54,319
\$ 15,164	\$ 14,211	\$ 12,691	\$ 11,263	\$ 9,432	\$ 8,819	\$ 7,763



The image shows two large, black, cylindrical industrial storage tanks standing in a snowy field. The tank on the right is the primary focus and has white text printed on its side. Both tanks have metal ladders and platforms at their tops. In the background, a dense line of evergreen trees is visible against a clear, bright blue sky. To the right of the tanks, there are blue industrial containers and various pieces of equipment scattered on the snow.

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